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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Financing of the activities arising from Security Council resolution 687 (1991)

Update of oversight activities concerning the oil-for-food programme and the United Nations Compensation Commission

Note by the Secretary-General*

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994, 54/244 of 23 December 1999 and 56/246 of 24 December 2001, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services.

2. The Secretary-General takes note of its findings and of the efforts being made by the Office of the Iraq Programme and the United Nations Compensation Commission to implement the recommendations of the Office of Internal Oversight Services.

* The report transmitted in the present note was delayed owing to extensive consultations with the Office of the Iraq Programme and the United Nations Compensation Commission.

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Report of the Office of Internal Oversight Services on the update of oversight activities concerning the oil-for-food programme and the United Nations Compensation Commission

Summary

The present report expands upon the issues concerning the Iraq oil-for-food programme discussed in annual reports of the Office of Internal Oversight Services (OIOS) for the periods from July 1999 to June 2000 and from July 2000 to June 2001 and describes the actions taken by management to address the recommendations made by OIOS. The oil-for-food programme inherently involves high risks owing to the wide range of activities carried out, the large number of United Nations organizations involved and the unprecedented level of funds. This is also a relatively new activity without adequate precedents to draw upon. The report accordingly provides the OIOS strategy and background information on auditing the oil-for-food programme as well as the United Nations Compensation Commission.

The Office of the Iraq Programme was established at United Nations Headquarters in October 1997 to consolidate the management of United Nations activities under the oil-for-food programme and to improve the overall implementation of the programme established by the Security Council in its resolutions 986 (1995) and 661 (1990). The United Nations Compensation Commission, established by the Council in its resolution 687 (1991), is a subsidiary organ of the Council responsible for processing claims and paying compensation for losses resulting from Iraq's invasion and occupation of Kuwait.

In the view of OIOS, the Office of the Iraq Programme and the United Nations Office of the Humanitarian Coordinator in Iraq have welcomed audits. They have also been responsive to audit recommendations, and have made serious efforts to implement them. However, a number of issues need to be further addressed by the management of the Office of the Iraq Programme. These include improved management of major contracts in Iraq, as well as enhanced coordination and monitoring of project activities carried out by United Nations agencies and programmes in northern Iraq.

The management of the United Nations Compensation Commission has satisfactorily addressed the recommendations of OIOS resulting from the management audit of the Commission's phase-out activities. However, the Commission's Governing Council did not agree with a recommendation of OIOS calling for Governments and other organizations to provide audit certificates as part of the claims payment process. The Commission also did not agree with certain recommendations of OIOS concerning adherence to the prescribed claims processing methodology for individual claims for damages exceeding $100,000.

Contents

		Paragraphs	Page
I.	Introduction	1–3	4
II.	Oil-for-food programme audit strategies	4–8	4
	A. Coordination of audit activities	5–6	5
	B. Audit coverage	7–8	6
III.	Update of audit findings and recommendations	9–14	7
	A. Office of the Iraq Programme	10	7
	B. United Nations Office of the Humanitarian Coordinator in Iraq	11	8
	C. Coordination and monitoring activities in northern Iraq of the United Nations Office of the Humanitarian Coordinator in Iraq	12	8
	D. United Nations Compensation Commission	13–14	9
IV.	Conclusion	15–16	10

I. Introduction

1. The terms of reference of the oil-for-food programme, which were established under Security Council resolution 986 (1995) of 14 April 1995, enabled Iraq to sell up to $1 billion of oil every 90 days and to use the proceeds for the purchase of humanitarian supplies. Subsequent Council resolutions have extended the programme, and by Council resolution 1284 (1999) of 17 December 1999, the ceiling on the amount of oil that Iraq could export was removed. The Office of the Iraq Programme was established at United Nations Headquarters on 15 October 1997 to consolidate and manage the activities of the United Nations Secretariat pursuant to Council resolutions 986 (1995) and 661 (1990). The United Nations Office of the Humanitarian Coordinator in Iraq is an integral part of the Office of the Iraq Programme with the Humanitarian Coordinator reporting directly to the Executive Director of the Iraq Programme. The Humanitarian Coordinator is responsible for managing and implementing the oil-for-food programme in Iraq. The core responsibility of the United Nations in the centre/south of Iraq is observing the distribution of humanitarian supplies and equipment as well as monitoring the use of oil spare parts and equipment purchased by the Government of Iraq. The United Nations Compensation Commission was established by the Council in 1991 to process claims and pay compensation for losses resulting from Iraq's invasion and occupation of Kuwait.

2. The complexity and diversity of the Organization's responsibilities under the relevant Security Council resolutions and the associated risks made it essential to ensure adequate oversight coverage. In this context, the Office of Internal Oversight Services (OIOS) was provided with additional resources in early 2000 to establish the Iraq Programme Audit Section within its Internal Audit Division. OIOS has developed audit strategies to ensure effective oversight of the Programme's high-risk areas. The present report provides an update of oversight activities discussed in the two most recent annual reports of OIOS (A/55/436 and A/56/381) as well as additional information on audits of the oil-for-food programme and the United Nations Compensation Commission. A draft of the report was made available to the Office of the Iraq Programme and the United Nations Compensation Commission. Their comments have been taken into account in preparing this final report.

3. In its resolution 56/246, the General Assembly requested the Secretary-General to ensure that the Office of Internal Oversight Services submitted an update on the status of the oversight activities referred to in paragraphs 71 to 81 and in paragraphs 52 to 60, respectively, of its two most recent annual reports (A/55/436 and A/56/381), for further consideration by the Assembly at its resumed fifty-sixth session.

II. Oil-for-food programme audit strategies

4. The Iraq Programme Audit Section of the Internal Audit Division of OIOS has wide-ranging audit responsibility concerning oil-for-food programme activities. OIOS audit coverage of the programme has increased substantially since the establishment of the Section, which is responsible for auditing the Office of the Iraq Programme headquarters in New York, the United Nations Office of the Humanitarian Coordinator in Iraq, the United Nations Compensation Commission, the United Nations Monitoring, Verification and Inspection Commission

(UNMOVIC) and the United Nations Human Settlement Programme (UN-Habitat) Settlement Rehabilitation Programme in Northern Iraq. Initially, the strategy of OIOS was to assign audit responsibility for all Security Council resolution 986 (1995)-funded activities to the Iraq Programme Audit Section of the Internal Audit Division in order to obtain a global view of the myriad activities and to enable a more focused approach.

A. Coordination of audit activities

5. An essential element of the audit strategy of OIOS involves coordinating activities with the internal audit bodies of the nine United Nations agencies and programmes involved in implementing the oil-for-food programme in northern Iraq. Under Security Council resolution 986 (1995), 13 per cent of oil revenues are allocated to projects in northern Iraq. An additional 2.2 per cent of oil revenues are allocated to administrative and operational costs for United Nations activities associated with the humanitarian programme in Iraq, as well as the headquarters level for both the Secretariat and the agencies and programmes concerned. Figure I shows the significant amount of funds allocated to the United Nations agencies and programmes for activities in northern Iraq through the 13 per cent account.[1] Figure II shows budgeted administrative and operational costs for activities carried out by United Nations agencies and programmes in northern and central/south Iraq. (*Note*: in figures I and II, FAO = Food and Agriculture Organization of the United Nations; WFP = World Food Programme; UNICEF = United Nations Children's Fund; UNDP = United Nations Development Programme; WHO = World Health Organization; UNESCO = United Nations Educational, Scientific and Cultural Organization; UNCHS (Habitat) = former United Nations Centre for Human Settlements (Habitat); UNOPS = United Nations Office for Project Services; ITU = International Telecommunication Union.) In the opinion of OIOS, the similarities between the projects carried out by the United Nations agencies and programmes in northern Iraq make it feasible to perform horizontal audits, in order to review the same areas in each United Nations agency and programme. This approach will result in harmonizing procedures among the agencies. OIOS has identified a number of areas where horizontal audits would be beneficial including project planning, procurement practices, personnel and financial management.

6. Most of the audit bodies of the United Nations agencies and programmes implementing oil-for-food programme activities were represented at the last annual meeting of the representatives of internal audit services of the United Nations organizations and multilateral financial institutions held in Bangkok in June 2001. A priority agenda item at the meeting was auditing of the oil-for-food programme. A five-pronged approach to auditing the programme was developed as follows:

(a) Share audit plans and information required for conducting horizontal audits;

(b) Perform joint audits;

(c) Share audit results;

(d) Appoint an audit focal point in each audit body;

(e) Include auditing of the oil-for-food programme as a standing item for future meetings of the audit services.

Figure I

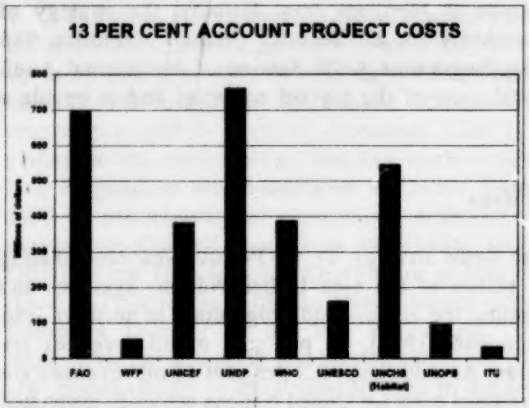
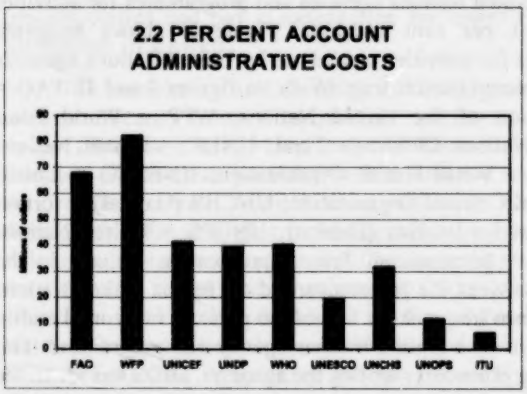


Figure II



B. Audit coverage

7. The initial phase of the OIOS audit strategy focused on reviewing field issues in Iraq. This goal was achieved by establishing two resident auditor posts in Iraq. These auditors have reviewed the activities of the United Nations Office of the Humanitarian Coordinator in Iraq and liased with other United Nations agencies and programmes implementing Security Council resolution 986 (1995)-funded activities in Iraq. In the second phase, with the addition of another auditor post, OIOS expanded its coverage to include Office of the Iraq Programme headquarters and other bodies including the United Nations Compensation Commission and UN-Habitat. However, OIOS still places a high priority on the audit of field activities, especially those involving the implementation of the oil-for-food programme in northern Iraq. As at the end of 2001, OIOS had completed the following audits:

Organization	*Audit subject*
Office of the Iraq Programme	• Contract for the supply of inspection agents in Iraq
	• Contract for the supply of oil inspectors in Iraq
	• Iraq escrow account treasury and cash management
United Nations Office of the Humanitarian Coordinator for Iraq	• Procurement, finance, asset management, and other administrative issues
United Nations Office of the Humanitarian Coordinator for Iraq, northern Iraq	• Coordination and monitoring issues of Security Council resolution 986 (1995)-funded projects implemented in northern Iraq
United Nations Office of the Humanitarian Coordinator for Iraq resident audits	• Security issues in northern Iraq
	• Payment of mission subsistence allowance
	• Medical services
	• Cash management
	• Observation mechanism in central/southern Iraq
UN-Habitat	• Construction contract management, procurement, finance, cash management and asset management
United Nations Compensation Commission	• Management audit of efforts to phase out the Commission's activities
	• Procurement of outsourced consulting services
	• Claim payments and administration
	• Various "D" and "F" category claims[2]

8. The 2002 audit plan of OIOS provides continuing coverage of these organizations and also calls for audits of UNMOVIC.

III. Update of audit findings and recommendations

9. The present section of this report provides an update on the status of issues considered in annual reports of OIOS covering the periods from July 1999 to June 2000 and from July 2000 to June 2001. The update also takes into account additional reviews by OIOS covering the areas discussed in its annual reports, clarifies certain aspects of the reports, and provides an update of the actions taken by management to implement recommendations of OIOS.

A. Office of the Iraq Programme

10. The annual report of OIOS covering the period from 1 July 1999 to 30 June 2000 (see A/55/436) discussed the management of the contract for the supply of

inspection agents in Iraq. The Office of the Iraq Programme indicated that steps had been taken to revise the contract upon renewal in order to close gaps and better define the actual basis for payment. OIOS has closed all recommendations pertaining to this audit. In order to assess whether management has taken appropriate action to improve contract management procedures, OIOS plans to conduct an audit of the current contract for inspection agents in Iraq during 2002.

B. United Nations Office of the Humanitarian Coordinator in Iraq

11. OIOS had also conducted an audit of the United Nations Office of the Humanitarian Coordinator in Iraq, the findings of which were reported in its annual report for the period from 1 July 1999 to 30 June 2000. As noted below, OIOS was pleased to learn that the management of the United Nations Office of the Humanitarian Coordinator in Iraq had taken steps to address the issues raised in the report:

- OIOS had identified several weaknesses in the procurement process of the United Nations Office of the Humanitarian Coordinator in Iraq, which resulted in delays and, in some instances, failed to comply with United Nations procurement rules. OIOS accordingly recommended that the delegation of procurement authority to the United Nations Office of the Humanitarian Coordinator in Iraq be reduced. A subsequent OIOS review found that the management of the United Nations Office of the Humanitarian Coordinator in Iraq had overhauled the procurement process, which reduced delays and ensured compliance with procurement rules;

- The United Nations Office of the Humanitarian Coordinator in Iraq had purchased winter relief items in 1999 and 2000 for internally displaced persons in northern Iraq. However, the procurement procedures used departed from established practice. The management of the United Nations Office of the Humanitarian Coordinator in Iraq agreed with OIOS audit recommendations to outsource the procurement and management of relief items. This has allowed the United Nations Office of the Humanitarian Coordinator in Iraq to focus on its coordination and monitoring roles. OIOS has closed all audit recommendations relating to this issue based on their satisfactory implementation;

- OIOS resident audits of activities of the United Nations Office of the Humanitarian Coordinator in Iraq in various locations in Iraq have brought a number of issues to management's attention relating to security, medical services, cash management and other matters. As a result of the OIOS audit recommendations, the management of the United Nations Office of the Humanitarian Coordinator in Iraq has taken steps to strengthen financial and administrative activities in the areas audited. The 2002 audit plan of OIOS calls for its resident auditors to review areas that have not been previously audited and to assess the actions taken to implement previous audit recommendations.

C. Coordination and monitoring activities in northern Iraq of the United Nations Office of the Humanitarian Coordinator in Iraq

12. In northern Iraq, the United Nations Office of the Humanitarian Coordinator in Iraq is primarily concerned with coordinating and monitoring Security Council

resolution 986 (1995)-funded activities being implemented by United Nations agencies and programmes, under a memorandum of understanding with the Office of the Iraq Programme. OIOS found that the United Nations Office of the Humanitarian Coordinator in Iraq needed to strengthen its approach in order to more effectively carry out its responsibilities. The main findings of OIOS and the steps taken by the United Nations Office of the Humanitarian Coordinator in Iraq to address the recommendations of OIOS are discussed below:

- The United Nations Office of the Humanitarian Coordinator in Iraq needed to strengthen the coordination of various activities carried out by United Nations agencies and programmes, which related to: (a) assessing project implementation; (b) establishing common administrative procedures in a number of areas; and (c) developing common procurement procedures in order to share information on contractors and establish standard terms and conditions for contracts;

- Subsequent reviews of the implementation of OIOS recommendations indicated that the management of the United Nations Office of the Humanitarian Coordinator in Iraq had taken a proactive approach to strengthening coordination in northern Iraq. Initiatives included establishing units to deal with programme management and implementation, as well as an Inter-Agency Administrative Working Group. Furthermore, procedures for approving projects under the 13 per cent account are being revised, enabling the United Nations Office of the Humanitarian Coordinator in Iraq to ensure that projects meet established criteria, and to enhance monitoring of the progress of implementation;

- Despite these initiatives, OIOS believes that further steps need to be taken to monitor the activities of United Nations agencies in northern Iraq, including better control over individual projects and the use of key performance indicators to monitor implementation. During 2002, OIOS will assess the steps being taken by the United Nations Office of the Humanitarian Coordinator in Iraq to improve its coordination and monitoring roles. All prior OIOS audit recommendations have been closed.

D. United Nations Compensation Commission

13. The annual report of OIOS covering the period from 1 July 2000 to 30 June 2001 (see A/56/381) reported on the work of the United Nations Compensation Commission established by the Security Council in its resolution 687 (1991), as a subsidiary organ of the Council. The Commission processes claims and pays compensation for losses resulting from Iraq's invasion and occupation of Kuwait. Compensation is paid from a special fund that currently receives 25 per cent of the revenues from Iraqi oil sales.

14. The Commission's work programme provides for phasing out its activities by the end of 2003 except for environmental claims, which are scheduled for completion by the end of 2004. OIOS assessed the preparations being made for phasing out the Commission's activities and identified additional steps needed to ensure the efficient completion of its operations. Major audit findings and management's actions to implement related audit recommendations are discussed below:

- In the view of OIOS, the Commission needed to make proposals to its Governing Council concerning a number of issues with respect to resolving

policy matters that may hamper its ability to complete operations in accordance with its work plan. These matters are as follows: (a) article 41 of the provisional rules for claim procedures, which requires that certain types of errors be brought to the attention of the Executive Secretary within 60 days, had not been adhered to; (b) the policy establishing the criteria for accepting late claims needed to be reviewed and the Governing Council informed of the implications for the work of the Commission; and (c) the policy for responding to substantive claim queries needed to be assessed. We were informed that the Commission had taken steps to implement the OIOS recommendations and that the Governing Council had addressed the related issues. Two recommendations remain outstanding. However, the Commission informed us that one recommendation will be implemented shortly and the other is awaiting a decision by the Governing Council;

- OIOS considered its recommendation that the Commission require Governments and other paying agents to provide audit certificates relating to payment reports submitted to the Commission to be of critical importance. The Commission referred the OIOS recommendation to its Governing Council, which subsequently decided not to adopt this measure. However, OIOS still maintains that the provision of audit certificates is an essential control mechanism to ensure that payments are made to claimants;

- OIOS also conducted an audit of "D" category claims (that is to say, individual claims for damages exceeding $100,000) processed by the Commission. OIOS recommended that the Commission provide documentation to justify deviations from the prescribed methodology for processing two particular claims that OIOS believed had resulted in overcompensation of $468,130. The Commission informed OIOS that the Panel of Commissioners had reviewed these cases and determined that the alterations to the methodologies were appropriate. The Commission had not responded to two critical audit recommendations. However, the Commission informed us that it anticipated responding shortly following consultation with the relevant Panel of Commissioners.

IV. Conclusion

15. In the view of OIOS, the overall implementation rate of its critical recommendations has been satisfactory given the size and complexity of the oil-for-food programme and other related activities. OIOS is aware of the difficult circumstances facing operations in Iraq, particularly with regard to obtaining qualified and experienced staff and in deploying them to the field. There is a need to pursue issues detailed in this report in order to determine that adequate procedures are being implemented. In 2002, oil-for-food audit activities will focus on activities in both Iraq and at Headquarters. Moreover, United Nations Compensation Commission audit activities will focus on recently completed high-value and complex claim categories. OIOS will also continue to strengthen cooperation with other United Nations internal audit bodies implementing humanitarian programmes in Iraq.

16. Overall, OIOS believes that the Office of the Iraq Programme is continuing to improve the coordination and monitoring of projects being implemented by United Nations agencies and programmes in northern Iraq. This should result in the more efficient and effective implementation of the oil-for-food programme as well as

increased cost-efficiency. With regard to the United Nations Compensation Commission, OIOS has reviewed only a limited number of claims cases. In general, we have found claims processing to be satisfactory.

Notes

[1] Phases I to VIII for the ESC 13 per cent account were as follows:

Phase I	10 December 1996 to 7 June 1997
Phase II	8 June 1997 to 4 December 1997
Phase III	5 December 1997 to 29 May 1998
Phase IV	30 May 1998 to 25 November 1998
Phase V	26 November 1998 to 24 May 1999
Phase VI	25 May 1999 to 11 December 1999
Phase VII	12 December 1999 to 8 June 2000
Phase VIII	9 June 2000 to 5 December 2000.

[2] "D" claims are individual claims for damages exceeding $100,000. "F" claims are claims submitted by Governments and international organizations.